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Report Highlights:

In 2002, Hong Kong's food retail sales amounted to U.S.\$6.0 billion and restaurant receipts \$6.9 billion respectively. The United States exported over \$1.0 billion of consumer-oriented products to Hong Kong, accounting for 21 percent of the market share. Due to changing consumption patterns and the high percentage of women in the workforce, the demand for frozen, convenience and processed foods is steadily on the rise. Market prospects for health, nutritional and organic products are very promising since people are getting more health conscious. The burgeoning tourism from mainland China also adds momentum to the HRI sector. In short, Hong Kong remains as a free port with high per capita income, and there is incessant demand for quality and new products. It provides an excellent market and a gateway to the China market for U.S. exporters.

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Table of Contents

Section I. Market Overview.....	3
Section II. Exporter Business Tips.....	5
Section III. Market Sector Structure and Trends	8
Food Retail	8
Hotel, Restaurant and Institutional (HRI)	14
Food Processing	16
Section IV. Best High-Value Product Prospects	16
Section V. Key Contacts and Further Information.....	18
Appendix: Statistics.....	20
Table A: Key Trade & Demographic Information (U.S.\$)	20
Table B: Consumer Food & Edible Fishery Product Imports.....	21
Table C: Top 15 Suppliers of Consumer Foods & Edible Fishery Products.....	22

Section I. Market Overview

Food Imports

- Hong Kong is an important market for consumer-oriented American foods and ranks number five as a U.S. export destination for these products. Hong Kong imported over U.S.\$1 billion of consumer-oriented products from the United States in 2002 accounting for 21 percent of the market share. Of all U.S. consumer-oriented exports to Hong Kong, poultry meat, fresh fruit, red meats, processed fruit & vegetables and tree nuts are the leading items. For fish and seafood products, the United States exported U.S.\$51 million worth of products to Hong Kong, increasing 21% over 2001.
- Due to limited land resources and rapid urbanization, Hong Kong has to rely heavily on imports for its food supply. In 2002, local production contributed only 5 percent of fresh vegetables, 26 percent of live poultry, and 26 percent of live pigs. However, Hong Kong's total imports of consumer-oriented products and fish & seafood products amounted to U.S.\$5.05 billion and U.S.\$1.76 billion respectively.

Economy

- Being one of the most affluent economies in Asia, Hong Kong has a per capita GDP of U.S.\$24,165.
- Real GDP dropped by 0.5% in the second quarter of 2003 amid the spread of Severe Respiratory Syndrome (SARS) in mid-March. The domestic sector, including retail trade, entertainment, catering and restaurants, was severely affected by SARS. Fortunately, a solid growth in merchandise exports helped somewhat cushion its impact. With signs of improvement in inbound tourism and merchandise exports, a firmer pick-up of the Hong Kong economy is expected for the second half. The official forecast of GDP growth for 2003 was revised upward to 2% in August, up from 1.5% in May.
- The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was concluded in late June 2003, granting duty-free access of Hong Kong products to the mainland and additional market access of Hong Kong companies in the mainland on services trade in phases. The agreement is expected to be able to boost the Hong Kong economy.
- Political and economic confidence in Hong Kong rebounded sharply in August, according to a recent survey. Rising most sharply is the index of "improvement in employment", which rose sharply by almost 75%. Other economic indices that performed well include the "economic prospects of Hong Kong" which rose by 28%, "confidence in the property market" which rose by 18%, and "China-Hong Kong economic relations" which rose by 17%. These positive indices reflect the improving prospects for exporting food products to Hong Kong in the coming year.

Consumer Preferences

- The economic downturn in the past few years and present high unemployment have affected consumers' eating and shopping habits. Whereas most people used to eat out frequently, now more are shopping for groceries and preparing more meals at home, or eating more meals at low-end or fast food restaurants.
- There has been growing popularity of frozen foodstuffs because many working women cannot afford the time to do grocery shopping daily. Besides, more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish.

- Hong Kong's relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets.
- According to surveys, there is most potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves.

Demographic Factors

- Two demographic trends contribute to the good potential for "convenience" and processed foods. 1. An increasing number of women in the work force. In 2002, 52.5 percent of women in Hong Kong were in the labor force. 2. A youthful work force: 58.5 percent of the labor force is in the age group of 25 - 44. In addition, this younger population is very receptive to new food varieties.

Advantages	Challenges
World's freest economy (Economic Freedom of the World, 2003 Annual Report, published by the Cato Institute of the United States in conjunction with the Fraser Institute of Canada and some 50 other research institutes around the world). Consistent free trade and free enterprise policies. No import duty except on wine, liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from Mainland China. No foreign exchange controls.	Severe competition between different supplying countries.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates. (Can be a disadvantage when U.S. dollar is strong. Then products from other supplying countries become more price competitive compared to U.S. products.)	A very price sensitive market; importers' buying decisions depend largely on price.
Foreign and local businesses operate on a level playing field.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
As one of the most affluent economies in Asia, a market leader for new products.	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
International city; residents travel frequently and are receptive to western and novel food.	A virtual duopoly in food retailing allows retailers to charge high slotting (shelf space) fees. See section on Supermarkets.
Sophisticated, reliable banking system.	
Consistent import regulations and rule of law.	

Section II. Exporter Business Tips

Importer Lists: ATO provides Hong Kong importer lists to U.S. exporters and assists to arrange meeting appointments provided adequate lead time is given.

Language: The official written languages in Hong Kong are Chinese and English. The official spoken languages are Cantonese (the prominent Chinese dialect in Hong Kong and South China) and English. In general, all correspondence can be in English.

Travel Visa: Even though Hong Kong is now part of China, there is still a border boundary between Hong Kong and China. If you are traveling with a U.S. passport, you do not need a travel visa for Hong Kong. However, if you are planning to go to Mainland China, you need to apply for a travel visa into China.

Legal System: Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Hong Kong's legal system is separate from Mainland China. Also, Hong Kong is a separate customs territory from China.

Payment: Hong Kong importers are willing to pay by letter of credit in the beginning. When a trading relationship has been established, many of them prefer to pay by open accounts so as to cut transaction costs.

General Consumer Tastes and Preferences

- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Most shopping is still done in traditional markets including wet markets and mom-and-pop shops. However, sales in supermarkets are increasing. The supermarket's share in terms of retail sales has risen from 44% of total sales in 1995 to 55% in 2002. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets.
- Due to the increasing prevalence of dual income families, ready-to-cook food has become more popular. The major supermarket chains in Hong Kong have been putting more emphasis on convenience foods.
- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk pack food products do not sell in Hong Kong, and small package food products are preferred.
- Hong Kong consumers have become increasingly more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package are certainly a good marketing strategy for health foods.
- The health-supplement market continues to enjoy healthy growth in recent years. According to Euromonitor's latest study, there has been a steady growth in the past six years in Hong Kong from \$106 million in 1997 to \$121 million in 2002. US-based Nu Skin Enterprises, one of the largest direct selling companies in the world, opened a shopping plaza in Hong Kong in July 2003. The company made a \$1 million plus investment in Hong Kong's retail sector because it sees significant potential in the health products markets and regards Hong Kong as a stepping-stone to China. The company representative revealed that the company has experienced double-digit growth in Hong Kong since 2000.
- Health products are well received in Hong Kong. A sales survey indicated that sales of milk surged in Hong Kong in 2001 as a result of aggressive marketing promoting its health benefits. Milk is promoted as one of the best sources of calcium and a health product. Since some Chinese have an intolerance to lactose, a component of milk, they may develop intestinal problems such as gas and diarrhea. Therefore, Nestle has recently launched a lactose-reduced milk. Adult consumers are particularly interested in low-fat milk.
- The same survey identified some top sales growth products which include breakfast cereal, chewing gum, soya drinks, drinks containing fruit juice, and ready-to-drink tea. Breakfast cereal and soya drinks are promoted as health food items. Marketers have been very creative in positioning chewing gum as an effective cold remedy.

Money spent on chocolate grew by more than 10 per cent, as did that spent on corn or potato chips. Frozen dim sum sales also grew, in what retailers said was a mark of its convenience, low price and quality.

- According to a survey result released in July 2003 by one supermarket chain in Hong Kong, the top ten most popular product brands were: Amoy dim sum, Coca-Cola, Doll dim sum, Dreyer's ice cream, Lee Kum Kee oyster sauce, Mr Juicy orange juice, Nestle Dairy Farm fresh milk, Nissin instant noodle, Vitasoy soya milk and Yakult lactic drink. The two surveys reflected Hong Kong consumers' preferences to a certain extent.
- To better understand Hong Kong consumers' preferences for western foods, the Hong Kong Agricultural Trade Office commissioned a pilot study from a Hong Kong market research firm on consumer preferences among Hong Kong Chinese consumers for four different categories of food products: hot dogs, salty snacks, fruit juice beverages and celery. The purpose of the study is to identify consumer attitudes and buying habits so as to help U.S. exporters gain an insight as to how to introduce western foods in the most effective way to Hong Kong consumers. For details, please refer to Gain Report # HK0056.

General Import and Inspection Procedure

Food products can be imported to Hong Kong duty free. As for technical import requirements, the basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The Hong Kong government encourages food importers to produce health certificates for the importation of seafood products to expedite custom clearance. It accepts import applications from Hong Kong importers; U.S. exporters are not required to apply for import permits. However, U.S. exporters may need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.

The Hong Kong Food and Environmental Hygiene Department requires importers to provide an official certificate for the importation of meat products, frozen confection and dairy products. When a consignment arrives and before its release, the products will be inspected and if necessary sampled. Upon the satisfaction of the Department, a "release" letter will be issued to the importer.

Currently Hong Kong does not have any nutrition labeling requirements or guidelines. The Hong Kong government has recently proposed to the Legislative Council its intention to implement a mandatory nutrition labeling system in two phases. In the initial stage, food suppliers who choose on a voluntary basis to carry nutrition information, nutrition claims and function claims on their products will follow a prescribed format. The government plans to allow the voluntary scheme to run for a period of five to ten years before it will become mandatory for all prepackaged food products. According to the proposal, all prepackaged foods will eventually be subject to nutrition labeling. Drafting of the regulation has not yet started. The government is planning to launch a public consultation on the proposal on nutrition labeling in the coming months. Details refer to Gain report: #HK3009.

For more information on food import regulations, please also refer to the "Hong Kong Food and Agricultural Import Regulations and Standards, Importation of Food & Agricultural Products to Hong Kong 2003". Gain Report #HK3024.

Labeling of Biotech Foods

The Hong Kong government is considering to adopt voluntary labeling and pre-market safety assessment for biotech foods but has set no timetable for implementation. It will conduct a public consultation on the proposed system in early 2004.

Towards the end of 1999, the Hong Kong public, particularly the green groups and consumer organizations, demanded that the Hong Kong government adopt a biotech food labeling policy on the grounds of consumer's right to know. The momentum of biotech labeling intensified to the point where Hong Kong's Legislative Council (Legco) adopted a motion on January 5, 2000 to "draw on the experience of most member states of the European Union and expeditiously legislate for a labeling system" and to "conduct strict examinations and tests" on biotech foods.

The government then conducted a public consultation exercise on the labeling of biotech food in 2001. Three options for implementation were proposed: voluntary labeling, mandatory labeling, and voluntary labeling to be followed by mandatory labeling at a later date. While the majority of the submissions stated their preference for mandatory labeling, most of them were in standard letters. The "pro-voluntary" submissions, though less in numbers, came from associations which represent hundreds of members. It seemed there was no forgone conclusion of the consultation, even though different parties may extract and interpret results in a way favorable to their own position. (For detailed results of the consultation exercise, please refer to GAIN Report #HK1072.)

After the consultation, the government, using an independent contractor, conducted a regulatory impact assessment (RIA) on the labeling of GM food in Hong Kong, given concerns over the economic burden on trade in association with labeling requirements. No new developments on GM labeling happened throughout 2002 except the commissioning of the RIA. The report was presented to the Legco panel on March 20 this year together with the proposal on voluntary GM labeling and pre-market safety assessment. The Consumer Council and green groups voiced their opposition to the proposal while retail and food industry associations welcome the idea of a voluntary labeling approach of the Hong Kong government. The latest development is the passing of a motion by the Legislative Council on June 26 calling on the government to expeditiously establish a "voluntary first, and then mandatory" approach to a labeling system for biotech foods.

Through debating motions, Legco members express their views on issues of public concern or call on the government to take certain actions. The government is not obliged to act according to the passed motion. While motions at Hong Kong Legco meetings do not have legislative effect, the passing of the GM food labeling motion does exert some pressure on the government.

Section III. Market Sector Structure and Trends

Among the three major market sectors of Hong Kong: the retail and HRI (Hotel, Restaurant and Institutional) sectors present the best opportunity for U.S. exporters. The Food processing sector in Hong Kong is very small and presents less opportunity for market development.

Food Retail

- Total retail sales of food and drinks in Hong Kong for 2002 reached U.S.\$6 billion. For January - July 2003, retail sales of food, alcoholic drinks, and tobacco for traditional markets decreased 3.1% and 0.1% for supermarkets, compared with the same period

last year. The decrease was largely due to deflation and a more conservative consumption pattern by consumers when the economy turned sluggish.

- Retail establishments in 2001 amounted to approximately 16,478, which included (1) 82 supermarkets and convenience stores establishments (including retail outlet branches, estimated at about 800) and (2) 16,396 wet market stalls and “mom and pop” shop operators. Retail shops in Hong Kong generally are very small in size, about 98 percent of which hire less than 10 employees.
- Although the supermarket category constitutes a very tiny number of Hong Kong’s total retail outlets, its share in terms of retail sales has risen from 44% of total sales in 1995 to 55% in 2002. The significant jump may indicate that supermarkets have taken much business away from traditional wet markets.
- According to the estimate by the Hong Kong Agricultural, Fisheries and Conservation Department, supermarkets account for about 20 percent of the total sales of fresh foods. The majority of consumers still prefer to buy fresh foods such as produce and meats in wet markets. However, the trend is that consumers are gradually moving away from wet markets to supermarkets because of latter’s better shopping environment and hygiene standard.
- In short, wet markets are strong in fresh foods, while supermarkets are strong in processed, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years. Some wet markets have turned air-conditioned and provide free shuttle to nearby residential areas. Meanwhile, more and more supermarkets have been renovated to make sales of fresh meats possible.

Supermarkets

- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (244 outlets) and ParknShop (215 outlets). ParknShop and Wellcome account for about 80 percent of the supermarket turnover. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations, thus maintaining their significant market share. The other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super.
- In recent years, a “shopping mall” concept has emerged in the operation of some new superstores, i.e., a variety of services are provided. For example, a newly opened Wellcome, with a floor area of 54,000 square feet, provides massage service. A doctor specializing in Chinese medicine has an office within the store providing consultation to patients. The largest ParknShop store in Hong Kong has a floor area of 72,000 square feet and sells over 20,000 product categories ranging from snacks to electrical household appliances. New features include a drug store operating inside the superstore with a full-time pharmacist. Also, this new superstore provides free internet service to customers once they have made a minimum purchase. This ParknShop megastore contains a zone in which all goods are priced at HK\$8, in a move that could set off a war with existing HK\$10 bargain stores. The HK\$8 zone features 1,000 Japanese-style items ranging from cooking utensils to skin-care products.
- In 2001, a new upscale supermarket opened called Great Food Hall, with one outlet at the moment. It is associated with ParknShop but products on the shelf are more upscale. Located in a commercial area, it targets at a better-off clientele. Both Great

Food Hall and City Super are competing in the same market segment. The opening of the Great Food Hall provides another excellent retail outlet for quality U.S. products. When new products are proved popular in this new outlet, then they can find their way easily to ParknShop's chain stores.

- Almost all Hong Kong supermarkets require listing fees, that is, a fee charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. For example, Wellcome and ParknShop, which have many branch stores, have expensive listing fees. A product with five SKU categories is expected to pay U.S.\$26,000 to U.S.\$39,000. On the other hand, Jusco, a supermarket in a Japanese department store, charges U.S.\$150 for all its stores. The agent will not bear this cost, which is transferred to the principal. In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only Japanese department store food retailer that requires a listing fee.)
- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15 percent of the annual turnover has to be rebated to the major supermarkets and 8 percent to small ones.
- Different products have different mark-ups. A dried fruit importer revealed that an importer usually operates on a mark up of 5% to retailers who would then mark up another 30% to 35% to consumers.
- There is excellent potential growth in Hong Kong's retail food market for U.S. grocery store items, particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to the Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves.

Report by the Consumer Council

- According to a report released by the Consumer Council in August 2003, there are some findings with regard to supermarkets. First, prices at the big two supermarkets and CRC over the first half of the year had gone up by an average of 1.5% compared with a year earlier. When discounts and promotions were taken into account, average prices had dropped by 0.8%. However, government figures show that deflation for June was running at 3.1 percent, year on year.
- Secondly, in the six years from 1996 to 2001, there has been a substantial decline of small supermarket operators by approximately 41%.
- Thirdly, from 1993 to 2003, the two major supermarket chains have grown 29% by number of retail outlets (31% for Wellcome and 28% for ParknShop respectively).

- The Consumer Council warned that consumers would be deprived of choice if the market was monopolized - especially as smaller supermarkets and wet markets were phased out. When there is a lack of fair competition, supermarket giants may control the variety of products available. Therefore, it called for a wide-ranging law on fair competition, and a high-powered authority to oversee it.
- The Hong Kong government responded that there was no sign the two dominant supermarket chains engaged in anti-competitive acts or abused their market power. The government said it did not see the need for a competition law, but a new set of guidelines would be issued on how to tackle any anti-competitive environment.

Market Entry Approach

- Through setting up a representative office in Hong Kong: While this is the most effective approach, it is very costly.
- Through U.S. Consolidators: Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. However, the product quantities requested per shipment are usually small, especially when new products are purchased to test the market.
- Through Hong Kong agents: This is the most popular approach. The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets.
- Direct to Supermarkets: For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.
- Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if they deal directly with retailers.

Convenience Stores

- There are around 600 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (484 outlets) and Circle K (180 outlets). They are targeting the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are "convenience" in nature, i.e. goods are normally bought in small quantities for immediate consumption. The average store size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.
- According to a study, Hong Kong can accommodate 1,200 convenience stores. Given that there are about 600 stores presently, there is still a room for expansion. The

primary strategy of convenience stores is to increase services providing "convenience" to consumers and to increase the number of stores so as to reach economies of scale. 7-eleven, operated on a franchise basis, is able to expand the number of stores quickly. The owners of 7-eleven will increase to 500 stores by early 2004. Meanwhile, Circle K is continuing to expand. It is reported to have set a target to increase its current 150- plus outlets to 200 by 2003.

- A Circle K representative revealed that average purchases per customer had dropped to HK\$10.62 (U.S.\$1.56) for the first three quarters of 2002, down 7% from a year ago.
- A new development in 2003 is that ParknShop expanded into 24-hour convenience store operations. The supermarket giant has opened six stores under the name ParknShop Express on a trial scheme and may expand the network across Hong Kong if the experiment succeeds. ParknShop has intrinsic competitive advantages over its rivals because it can use the leverage of the group's existing infrastructure to offer products at low prices. The stores carry the products as other convenience stores such as cooked food, drinks, newspapers and magazines. In a bid to lure customers, the 1,000 products offered by ParknShop Express are priced at the same level as those being sold at ParknShop. This is in contrast to other convenience store operators charging at a premium of up to 15 per cent from those selling at supermarkets.

Market Entry Approach

- Convenience stores only buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.

Traditional Markets

- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the lion's share of food retail. For example, they occupied around 54 percent of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely to persist and enlarge in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets, particularly for seafood, meat and groceries. Wet markets still occupy about 80 percent of the retail sales of fresh foods. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.
- Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods. One feature of traditional markets is that stalls are small, but the service they offer is personal.
- A traditional mom-and-pop shop which started business in 1990 has expanded to 55 stores spreading all over Hong Kong in recent years. The stores are called Yu Kee, with floor area ranging around 1,500 sq. feet each. They sell mainly processed foods and produce. Most of the food supplies come from China and South East Asia. They

also import snack foods and drinks from Europe. However, U.S. foods are not yet on their shelves. The stores feature cheap prices and are after the mass market.

- Another chain stores worth mentioning is called Magic House. With 72 retail stores, they operate like "convenience stores" except that their business hours are only around 10 hours instead of 24 hours. They primarily sell snack foods, drinks and ice cream.

Market Entry Approach

- U.S. exporters must go through local importers/agents that have a good distribution networks.

Trends in Promotional/Marketing Strategies and Tactics

- Supermarkets expanding store size: The supermarket industry is undergoing a face-lift to introduce larger size stores with an objective to provide one-stop shopping and convenience for customers. In addition to traditional grocery and household products, supermarkets are moving towards larger, more modern stores with more fresh food.
- Increasing demand for promotion package and discounts: Hong Kong is experiencing an economic downturn and consumers are very price sensitive. Marketing tactics such as selling larger economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective marketing tool is to offer discounts.
- In face of strong competition, major supermarket stores very often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power as they have many retail outlets, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- Consumers becoming increasingly health-conscious, and organic products picking up in popularity: There has been a gradual change in what consumers want in Hong Kong. The importance of meat, especially red meat, has declined, while poultry and other food groups, such as fruits and vegetables, are gaining in popularity. Consumers increasingly look for freshness, healthiness, new varieties and shorter meal-preparation time for food. Consumers want foods of higher nutritional value, but also increasingly pay attention to food safety and hygiene. In short, the marketing trend is to position food products as a healthy, natural, nutritional, etc.
- Organics: The market for organic food, especially fresh vegetables, has picked up considerably in the past few years. ParknShop, the biggest supermarket chain in Hong Kong, set up a separate organic food section in many of their stores. A trader of mainland grown organic vegetables has seen his orders steadily increasing. A local producer of organic vegetables said his produce has been experiencing strong demand, and his farm broke even two years after it started operating in 1988. Organic produce typically costs 5 - 6 times more than vegetables grown traditionally, but the middle class and expatriates in Hong Kong are willing to pay for what they perceive as "safe" and "hygienic" products.
- Internet direct sales of food: Currently ParknShop, Wellcome, and City Super are the three supermarkets offering grocery shopping over their website. The service is

however not attracting a lot of interest, due to the convenience of shopping in Hong Kong, security concerns and the cost of delivery.

- Growing awareness of U.S. products fit supermarkets' needs to diversify product range: With awareness of the high quality and variety of U.S. food products increasing among supermarkets, there are many opportunities to introduce new U.S. products to the local market. ATO Hong Kong selectively invites key supermarket buyers to the United States on U.S. buying missions, which are followed by in-store promotions highlighting U.S. products. Buyers from Hong Kong supermarkets realize the quick-changing consumption temperament of local consumers, and many have expressed the need to source new products to capture changing tastes. With strong support from exporters and state regional trading groups, the ATO continues its efforts to promote U.S. products and help supermarkets expand the range of U.S. products they carry.
- To promote U.S. food products, the ATO sponsors the HOFEX trade show which will be held February 10-13, 2004. Also, ATO is planning for a "healthy school lunch" program, the objective of which is to promote U.S. fruits and vegetables among Hong Kong students. This program is to assure recognition of U.S. origin products in the minds of Hong Kong consumers.
- For further information on the Hong Kong food retail sector, please refer to "Retail Food Sector Report 2002" (Gain Report #HK2046).

Hotel, Restaurant and Institutional (HRI)

- Total sales of all the eating establishments in 2002 were over U.S.\$6.9 billion while purchases amounted to U.S.\$2.3 billion. Local households spend approximately 50 to 60 percent of their food budget on dining out. Since Hong Kong people usually have small homes, they prefer to entertain at restaurants instead of in the home. In 2001, there were over 11,553 restaurants, about 5,500 of which were Chinese restaurants.
- The local Chinese population, especially the under 30 age group, is opting for more western lifestyles and eating habits, and are moving toward higher consumption of convenience foods. McDonald's, Dominos, Pizza Hut, Kentucky Fried Chicken, Hardee's, Oliver, Pret A Manger, Starbucks and others have all grown rapidly in numbers over the past years and now have become fixtures in the Hong Kong market. 2003 also witnessed the opening of California Pizza Kitchen (CPK) in Hong Kong.
- The fastest developing sector of the market is the fast food outlets. While fast food business have recorded strong growth providing budget alternatives for Hong Kong consumers during the economy downturn, consumer sentiments have changed. Consumers are now more value conscious, and demand better "bang for the buck". This change in sentiment has forced the major fast food operators, Café De Coral, Maxim's and Fairwood, to innovate their menus by introducing numerous new ingredients, such as breaded chicken patties, premium juice drinks, etc. Café De Coral and Fairwood are also renovating their older restaurants and adding "cyber corners" to give them a more upscale look, in order to create more value in patrons' minds. The average spending in fast food outlets is HK\$33.90 for dinner, HK\$25.50 for HK\$18.20 for breakfast and HK\$16.60 for afternoon tea. (U.S.\$1.00 = HK\$7.78)
- In recent years when the economy has been sluggish, fast food chains are not only competing with each other within the sector but also with low-end restaurants.

Restaurant diners have tightened their budgets. In response to a slow economy, low-end restaurants have already lowered the prices to a level comparable to high-end fast food chains. To lure more business, fast food chains such as Café De Coral and Fairwood started to provide delivery services, reflecting the keen competition of the food business.

- Several of Hong Kong's leading restaurants and hotels serve exclusively U.S. beef, chicken, turkey, eggs, and a wide assortment of fruits and vegetables which has clearly benefited the United States as a supplier.
- Another key feature of Hong Kong's HRI is the increasingly competitive coffee shop market in Hong Kong with new outlets opening around the city despite the economic downturn. While westerners will stand up and drink a coffee, Chinese people in the Hong Kong market want to sit down and take their time over their sandwich or cup of coffee. Starbucks and Pacific Coffee are Hong Kong's two largest coffee shop chains.
- Hong Kong's burgeoning tourism serves as stimulus to the HRI sector. In 2002, Hong Kong recorded a total of 16.6 million tourists, who accounted for approximately 16 percent of the HRI businesses. Hong Kong's inbound tourism has been further spurred by the travel relaxation policy of Mainland China effective in summer 2003. Since then there has been a surge of Mainland China visitors to Hong Kong. According to a Chinese official's prediction, the number is expected to hit 10 million next year while that for 2002 was 6.8 million. These visitors are spending lavishly on restaurant meals. With the Hong Kong government's focus on the tourist industry, and the opening of Disney Land in Hong Kong in 2005, the future looks bright. Exporters should note that tastes in food can often differ between Chinese and Western consumers, exporters looking to grow business with the HRI trade should focus on U.S. ingredients for Chinese dishes offerings since it is Chinese tourists that spear the growth of Hong Kong's inbound tourism.

Market Entry Approach

- Because of small individual consumption, local hotels, restaurants and most fast food operators usually cannot afford to import directly. The distribution of food and beverages to these operators is generally through import agents. U.S. exporters should contact Hong Kong importers to explore potential business opportunities.

Trends in Promotional/Marketing Strategies and Tactics

- Participation in trade shows: ATO sponsors the Restaurant and Bar show which will be held October 7-9, 2003. The show provides a showcase for U.S. food ingredients, wine and beverages to Hong Kong's hotel and restaurant trade. In cooperation with cooperators and regional groups, the show will demonstrate the versatility and safety of U.S. food products.
- Menu promotions with major restaurant chains: Menu promotion dollars will be maximized if spent on promotion events held with the major restaurant chains. With the restaurant chains' announced intention to have an image overhaul, this provides for an opportunity to introduce new U.S. foods.
- Inviting restaurant owners/chefs to seminars and/or to the United States: ATO Hong Kong/ cooperators organize seminars and trade missions to the United States with an intention to introduce U.S. products, meet U.S. exporters, and experience U.S. store formats.

- Setting up of several fast food and takeaway websites: There are several meal delivery sites to cater to the home delivery market by fax, telephone, or internet. These sites are in cooperation with a number of restaurants which will prepare the food which clients order.
- For more information on Hong Kong's HRI sector, please refer to Gain report#3019.

Food Processing

- The food processing industry in Hong Kong is relatively small compared to food retail and HRI sectors. The total output of the local food processing industry was U.S.\$1.85 billion in 2000 and there were 787 food processing establishments as of 2002. Baking is the largest sector in Hong Kong's processed food and beverage industry. Major products of the industry include biscuits, pastries and cakes for both domestic consumption and export. Other significant sectors include instant noodles and other pasta production; canning, preserving and processing of seafood (such as fish, shrimp and prawns, and other crustaceans); manufacture of dairy products (fresh milk, yogurt and ice cream); seasonings; and spirits. Due to limited space and relatively expensive labor, the current trend for Hong Kong food processing companies is to establish plants in the Southern China region instead of Hong Kong because of lower operating costs in China. The growth prospects for the local food processing industry are very limited. Hence the food processing sector presents few opportunities for U.S. exporters.

Market Entry Approach

- Food ingredients are sourced both through direct import by food processors and through middleman traders. Hong Kong traders and end-users tend to stay with suppliers with whom they know well and have done business with for some time. While exporters would do well exploring all channels, patience and understanding are required to establish a relationship of trust before trading can commence.

Section IV. Best High-Value Product Prospects

Note :

- 1 Hong Kong food supplies largely rely on imports. Domestic production is very minimal so the market size in the following table is equal to retained imports without taking into account local production.
- 2 Import tariff rate for all products in the table is zero

Product Category	2002 Total Imports	2002 Retained Imports	1998 – 2002 Average Annual Retained Import Growth	Key Constraints over Market Development	Market Attractiveness for USA
Poultry Meat	851,912 MT	227,836 MT	-6%	Strong competition from Brazil	Demand for a wide variety of grades; trade prefer U.S. good packaging
Oranges	207,047 MT	150,790 MT	-6%	Strong competition	Consumers' recognition of

				from Brazil and other fruits	U.S. origin and quality
Red Meats, chilled	533,106 MT	240,594 MT	-5%	Economy downturn, consumers cannot afford high prices	Demand for high quality meat; U.S. meats well received by trade and consumers
Grapes	110,737 MT	41,066 MT	-4%	Strong competition from Chile & Australia	U.S. being the largest supplier; competitors supplying in different seasons
Red Meats, Prepared/Preserved	88,360 MT	75,525 MT	-1%	Strong competition from Brazil	Increasing demand for processed/value added products
Ginseng	5,458 MT	1,792 MT	-12%	Strong competition from Canada	Chinese great demand for ginseng as natural health foods
Apples	94,964 MT	53,596 MT	-2%	Apples from China are very price competitive and their quality has improved	U.S. remaining as the largest supplier and apples being one of the most popular fruits in Hong Kong
French Fries	30,604 MT	21,465 MT	16%	HRI being hampered by economy downturn	U.S. accounting for 94% of the market share; products well-received by trade
Cherries	5,956 MT	5,155 MT	2%	Lack of product handling knowledge by trade and retailers, being relatively expensive to other fruits	Competitors supplying in different seasons
Sauces	80,296 MT	62,170 MT	11%	Lack of U.S. product awareness by trade and	Consumers receptive to new flavoring; existence of

				consumers	HRI sector offering international cuisine
Plums	29,146 MT	12,825 MT	-8%	Consumers becoming more price conscious; Relatively expensive to other fruit items	U.S. being the largest supplier and competitors supplying plums in other seasons
Ice Cream	8,151 MT	7,834 MT	14%	Expensive to launch marketing programs for new brands; high slotting fees in supermarkets	Great demand for ice cream products; consumers willing to pay for premium products
Beer	124,200,462 Liter	117,061,934 Liter	5%	Expensive to launch marketing programs for new brands; very competitive beer market	Great demand, abundant pub and bar restaurants

Section V. Key Contacts and Further Information

Foreign Agricultural Service (FAS)
Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office
of the American Consulate General - Hong Kong
18 A, 33 Garden Road, Central, Hong Kong
Tel: (852) 2841-2350
Fax: (852) 2845-0943
E-mail: ATOHongKong@fas.usda.gov
Home Page: <http://www.USfoods-hongkong.net>

OR <http://www.usconsulate.gov>

(Food safety control policy)
Food & Environmental Hygiene Department
Food and Public Health Branch
43rd floor, Queensway government offices
66 Queensway
Hong Kong
Tel: (852) 2867-5511
Fax: (852) 2893-3547
E-mail: enquiries@fehd.gov.hk
Home Page: <http://www.fehd.gov.hk>

(Importation of plants & live animals)

Agriculture, Fisheries and Conservation Department
5th to 8th floors, Cheung Sha Wan Government Offices
303 Cheung Sha Wan Road
Kowloon
Hong Kong
Tel: (852) 2708-8885
Fax: (852) 2311-3731
E-Mail: afcdeng@afcd.gcn.gov.hk
Home Page: <http://www.info.gov.hk/afcd>

(Trade Statistics)

Census and Statistics Department
16th - 22nd and 25th floors, Wanchai Tower,
12 Harbor Road, Wan Chai, Hong Kong
Tel: (852) 2582-4807
Fax: (852) 2802-4000
E-mail: genenq@censtatd.gcn.gov.hk
Home Page: <http://www.info.gov.hk/censtatd>

(Licence for imported dutiable commodities)

Hong Kong Customs & Excise Department
Office of Dutiable Commodities Administration
6-9th floors, Harbor Building, 38 Pier Road, Central, Hong Kong
Tel: (852) 2852-3027
Fax: (852) 2581-0218
E-mail: customeq@customs.gcn.gov.hk
Home Page: <http://www.info.gov.hk/customs>

(Hong Kong companies registration)

Companies Registry
12th-15th, 17th and 29th floors,
Queensway Government Offices, 66 Queensway,
Hong Kong
Tel: (852) 2234-9933
Fax: (852) 2869-6817
E-mail: crenq@cr.gcn.gov.hk
Home Page: <http://www.info.gov.hk/cr>

(Trade Promotion and Hong Kong Information)

Hong Kong Trade Development Council
38th Floor, Office Tower, Convention Plaza, 1 Harbor Road, Wan Chai, Hong Kong
Tel: (852) 2584-4188
Fax: (852) 2824-0249
E-mail: hktdc@tdc.org.hk
Home Page: <http://www.tdctrade.com>

(Hong Kong Travel Information)

Hong Kong Tourist Association
9th - 11th floors, Citicorp Center, 18 Whitfield Road, North Point, Hong Kong
Tel: (852) 2807-6543
Fax: (852) 2806-0303
E-mail: info@hkta.org
Home Page: www.hkta.org

Appendix: Statistics**Table A: Key Trade & Demographic Information (U.S.\$)**

Year 2002

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$7,366 million/ 18%
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$5,048 million/ 21%
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$1,763 million/ 3%
Total Population (Millions) / Annual Growth Rate (%)	6.787 million /0.9%
Urban Population (Millions) / Annual Growth Rate (%)	6.787 million/0.9%
Number of Major Metropolitan Areas	One (Hong Kong as a whole)
Size of the Middle Class (Millions) ^{1/}	2 million
Annual Per Capita Gross Domestic Product (U.S. Dollars)	\$24,000
Unemployment Rate (%)	8.7% (April – June 2003)
Annual Per Capita Food Expenditures (U.S. Dollars)	\$1,901
Percent of Female Population Employed	52.5%
Exchange Rate (U.S.\$1 = HK currency)	HK\$7.75

Note : The middle class, about 30 percent of all households, is based on the expenditure pattern of households which have an average monthly expenditure of \$2,387 – 4193. The average household size is 3.3 persons.

Table B: Consumer Food & Edible Fishery Product Imports

Hong Kong Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S Market Share		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
CONSUMER-ORIENTED AG TOTAL	5,252	5,127	5,048	1,329	1,172	1,077	25	23	21
Snack Foods (Excl. Nuts)	248	233	231	19	15	13	8	6	5
Breakfast Cereals & Pancake Mix	19	22	23	7	8	8	36	37	32
Red Meats, Fresh/Chilled/Frozen	676	658	634	125	108	117	18	16	18
Red Meats, Prepared/Preserved	179	181	176	36	39	35	20	22	20
Poultry Meat	835	761	647	468	410	319	56	54	49
Dairy Products (Excl. Cheese)	321	352	299	28	20	17	9	6	6
Cheese	31	33	34	4	4	3	12	12	10
Eggs & Products	89	88	83	20	20	15	23	23	18
Fresh Fruit	747	758	796	232	226	231	31	30	29
Fresh Vegetables	185	174	161	33	25	17	18	15	10
Processed Fruit & Vegetables	307	260	260	90	77	75	29	30	29
Fruit & Vegetable Juices	21	22	21	8	9	7	36	39	33
Tree Nuts	140	133	191	67	50	64	48	37	34
Wine & Beer	159	153	141	15	15	15	9	10	11
Nursery Products & Cut Flowers	53	47	56	2	1	1	3	3	2
Pet Foods (Dog & Cat Food)	22	23	24	9	9	11	43	39	45
Other Consumer-Oriented Products	1,220	1,228	1,268	167	136	128	14	11	10
FISH & SEAFOOD PRODUCTS	1,945	1,766	1,763	53	42	51	3	2	3
Salmon	54	54	51	1	1	1	1	0	0
Surimi	5	6	6	1	1	1	1	1	1
Crustaceans	539	487	443	8	7	13	2	1	3
Groundfish & Flatfish	114	116	111	4	4	3	4	3	3
Molluscs	452	416	472	20	20	20	4	5	4
Other Fishery Products	781	687	679	20	11	15	3	2	2
AGRICULTURAL PRODUCTS TOTAL	7,641	7,533	7,366	1,571	1,434	1,343	21	19	18
AGRICULTURAL, FISH & FORESTRY TOTAL	11,020	10,503	10,252	1,726	1,581	1,521	16	15	15

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C: Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Hong Kong - Top 15 Ranking**CONSUMER-ORIENTED AGRICULTURAL TOTAL - 400**

	2000	2001	2002
	\$1,000	\$1,000	\$1,000
China (Peoples Republic of)	1,302,593	1,344,706	1,390,025
United States	1,328,966	1,171,828	1,076,912
Thailand	252,960	268,774	280,977
Brazil	255,477	252,332	260,782
Australia	241,427	238,455	245,152
Netherlands	218,787	191,179	173,314
Japan	157,090	140,671	146,663
Canada	119,219	120,182	110,217
Singapore	88,515	74,966	105,359
New Zealand	160,167	143,530	105,202
Germany	81,861	90,313	97,495
France	95,284	88,109	84,464
Taiwan (Estimated)	75,109	75,034	82,957
Iran	35,486	36,843	82,496
Korea, Republic of	96,860	97,520	79,143
Other	741,779	792,522	726,563
World	5,251,572	5,126,959	5,047,733

FISH & SEAFOOD PRODUCTS - 700

	2000	2001	2002
	\$1,000	\$1,000	\$1,000
China (Peoples Republic of)	322,299	281,739	288,215
Australia	220,722	224,026	206,088
Japan	184,436	160,210	189,890
Indonesia	100,711	107,504	101,481
Thailand	130,023	106,109	85,473
Canada	63,529	60,319	74,918
New Zealand	78,097	76,608	70,393
Taiwan (Estimated)	75,355	63,401	64,098
Vietnam	58,875	69,099	62,143
South Africa	50,970	41,759	54,611
United States	52,778	41,523	50,827
Norway	49,517	48,194	45,494
Philippines	47,455	39,114	38,039
Spain	43,829	36,521	36,301
Malaysia	36,659	40,735	36,063
Other	429,450	369,126	359,376
World	1,944,708	1,766,013	1,763,405

Source: United Nations Statistics Division